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BEFORE THE ARIZONA CORPORATION COMMISSION

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MARC SPITZER

Chairman

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AZ CORP COMMISSION
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Arizona Corporation Commission

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IN THE MATTER OF INVESTIGATION)
INTO QWEST CORPORATION'S)
COMPLIANCE WITH CERTAIN)
WHOLESALE PRICING REQUIREMENTS)
FOR UNBUNDLED NETWORK)
ELEMENTS AND RESALE DISCOUNTS)

Docket No. T-00000A-00-0194
Phase IIA (Supplemental)

NOTICE OF FILING JOINT
REBUTTAL TESTIMONY OF
JOSEPH GILLAN AND RICHARD
CHANDLER

AT&T Communications of the Mountain States, Inc., hereby gives notice that the Joint
Rebuttal Testimony of Joseph Gillan and Richard Chandler is attached and has been filed this
same date.

Dated this 12th day of May, 2003.

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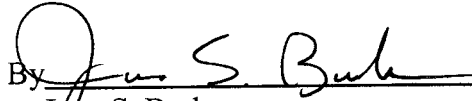
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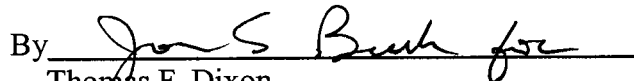
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CERTIFICATE OF SERVICE

I hereby certify that the original and 13 copies of Notice of Filing the Joint Rebuttal Testimony of Joseph Gillan and Richard Chandler, regarding Docket No. T-00000A-00-0194, were hand delivered this 12th day of May, 2003, to:

Arizona Corporation Commission
Docket Control – Utilities Division
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**BEFORE THE
ARIZONA CORPORATION COMMISSION**

MARC SPITZER
Chairman
JIM IRVIN
Commissioner
WILLIAM A. MUNDELL
Commissioner
JEFF HATCH-MILLER
Commissioner
MARK GLEASON
Commissioner

IN THE MATTER OF)	
INVESTIGATION INTO QWEST)	
CORPORATION'S COMPLIANCE)	DOCKET NO. T-00000A-00-0194
WITH CERTAIN WHOLESALE)	Phase IIA (Supplemental)
PRICING REQUIREMENTS FOR)	
UNBUNDLED NETWORK ELEMENTS)	
AND RESALE DISCOUNTS)	

JOINT REBUTTAL TESTIMONY OF

JOSEPH GILLAN

AND

RICHARD CHANDLER

ON BEHALF OF

**AT&T COMMUNICATIONS OF THE MOUNTAIN STATES, INC.,
AND WORLDCOM, INC.**

May 12, 2003

1 **Q. Please state your names, business addresses and occupations.**

2 A. Our names are Joseph Gillan and Richard Chandler. We previously filed direct
3 testimony on behalf of AT&T Communications of the Mountain States, Inc.
4 ("AT&T") and WorldCom, Inc ("MCI").

5
6 **Q. What is the purpose of your rebuttal testimony?**

7 A. The purpose of our rebuttal testimony is to comment on the testimony of Staff
8 witness William Dunkel. For the most part, we are encouraged by Mr. Dunkel's
9 testimony concerning local switching, in particular Mr. Dunkel's focus on cost-
10 recovery and his intention to review testimony with an open mind. We believe
11 this focus should lead him to conclude that the traditional legacy view of local
12 switching -- with its assumption that a usage-based rate element is appropriate -- is
13 inconsistent with its underlying cost structure and, as a result, the goal of cost
14 recovery.

15
16 **Q. Please summarize Mr. Dunkel's testimony on local switching.**

17 A. The principal point of Mr. Dunkel's testimony appears to be that "...the total cost
18 of the switch (as determined by the HAI run) should be recovered...."¹ Mr.

¹ Direct Testimony of William Dunkel on behalf of the Staff of the Arizona Corporation Commission ("Dunkel Direct"), page 6.

1 Dunkel goes on to express concern that “100% of the switch costs would not be
2 recovered” without some clarification by the Commission.²

3
4 **Q. What rate structure best assures that Qwest will recover its cost of local
5 switching?**

6 A. The rate structure that will best assure Qwest’s recovery of local switching costs
7 is the flat-rate rate structure recommended in our direct testimony. As we
8 explained in our direct testimony, Qwest does not incur switching costs based on
9 the usage through its switches. Consequently, a usage-based rate element
10 virtually assures that Qwest will either under-recover, or over-recover, its
11 switching costs, because actual usage will almost certainly vary from forecast
12 usage. The best way to assure that Qwest recovers its investment cost (no more
13 and no less) is to recover that cost entirely through more stable port rates, rather
14 than through usage charges that will fluctuate with changes in usage patterns.

15
16 **Q. Does Mr. Dunkel’s testimony justify a usage rate element?**

17 A. No, we do not believe that it does (nor do we believe that Mr. Dunkel intended
18 that it do so).³ Although Mr. Dunkel’s testimony does include a reference to the
19 traditional legacy view that some switching costs may be “traffic-sensitive,” the
20 reference is neither detailed nor documented:

² *Ibid.*

³ As we note later in our testimony, Mr. Dunkel makes clear his intention to review the evidence in this proceeding before making a recommendation.

1
2 ... inside the switch there is what is called the switching network
3 (sometimes called the "switching fabric"). This is the equipment
4 that switches calls. This cost is for switching traffic, and is
5 therefore properly considered to be a traffic sensitive cost.⁴
6

7 As we explained in our direct testimony, however, technological change has
8 radically changed the underpinnings of this legacy view – it is no longer true that
9 costs associated with "switching traffic," are properly viewed as "traffic
10 sensitive" with respect to pricing and cost recovery.

11
12 We understand that legends fade away slowly, but fade away they must. As one
13 witness explained to the Utah Commission, the legend of usage-sensitive
14 switching costs (as would befit any legend) has existed for some time:
15

16 As a young engineer 1980 or so coming into the telephone system,
17 I was indoctrinated, [] as everyone else was at the time, that
18 switches were usage-based much for the reasons that were just
19 discussed. And last year when I was approached in Minnesota
20 with the question of can we eliminate that usage-based sensitivity
21 in a switch, I have to admit, I found it very difficult to say: Yes,
22 we can eliminate that today because for years, and years, and years
23 in my career we thought about switches as having to be usage-
24 based. [But] the facts point today to [the] fact that in reality they
25 are not usage-based.⁵
26

⁴ Dunkel Direct, page 7.

⁵ Testimony of Wes Legursky, Utah Public Service Commission Docket No. 01-049-85, Tr. 142, December 18, 2002.

1 It is now time that fact replace legend. It is our understanding that Mr. Dunkel
2 has not conducted an analysis to determine whether the charges for local
3 switching should include a usage rate in Arizona and that he intends to review the
4 evidence presented by the parties on the issue.⁶ We believe that the evidence will
5 clearly demonstrate that unbundled local switching should be priced on a flat-rate
6 basis.

7
8 **Q. Have any additional Qwest states adopted the reformed view of switching**
9 **cost structure that you recommend?**

10 A. Yes. The Utah Public Service Commission recently decided to adopt a flat-rate
11 structure for unbundled local switching, joining the Minnesota Commission (in
12 the Qwest region), and the states of Wisconsin, Illinois and Indiana (in the
13 Ameritech region) that have reached the same conclusion:

14
15 The Commission finds that where possible, costs should be
16 billed to CLECs in the same manner as they were incurred by
17 Qwest. To do otherwise sends distorted price signals that will
18 artificially induce or retard the development of competition for the
19 related services. Certainly the experience the industry has gone
20 through with reciprocal compensation illustrates the futility and
21 danger of devising artificial pricing structures.

22 Qwest is charged a flat, fixed, per line price for switching
23 once basic capacity and design issues have been accounted for.
24 Given that a TELRIC network is designed to meet current demand,
25 the capacity issues at stake in this issue will have been accounted
26 for in the modeler's inputs and assumptions ...switching will be
27 billed on a flat-rate basis, with no usage charges.⁷

⁶ Dunkel Direct, page 8.

⁷ Order, Utah Public Service Commission Docket No. 01-049-85, May 5, 2003, page 16.

1

2

We similarly encourage the Arizona Corporation Commission to adopt a flat rate

3

structure for unbundled local proceeding here.

4

5

Q. Does this conclude your rebuttal testimony?

6

A. Yes.